

PERFORMANCE INDICATORS IN THE CZECH STATE ADMINISTRATION

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Abstract

This paper deals with performance measurement and its indicators in the area of the Czech state administration. Performance management is considered as an inevitable part of the public finance reforms and a crucial assumption of sustainable and stable public finances. Also it can gain confidence to the public that budget resources are being used effectively. That is why also the Czech Republic similarly as other developed countries tries to monitor the public sector performance last years. The paper analyses the current state of performance measurement in the Czech state administration and used performance indicators. Till 2012 the Czech Republic seemed to be at very beginning as for the public sector performance monitoring. Reasons of this state probably differed from entity to entity but the situation has started to change slightly in the context of proceeding public finance reform. In 2013 the Government of the Czech Republic has introduced three so called key analytical indicators for performance evaluation of the public sector organizations. The paper summarizes the present situation concerning performance measurement and its tools in the area of the Czech state administration.

Key words: performance, performance indicators, state administration, ministry

JEL Code: H 11, H 70, H 83

Introduction

It can be said that the first more serious attempts to control performance in the area of the public sector fall on the late 80s of the 20th century. Till this period the public sector was characterized by relatively low indebtedness, limitedness of services rendered and the institutional way of financing. As for budget sources distribution the indexation method was used. Accounting was organized on the cash basis and control of budget spending lied in legislative compliance solely. From the end of 80s a situation has started to change due to broadening of the public sector, increase of its indebtedness and its relatively low

performance. For these reasons new managerial methods were started to search for in the public sector.

Following period then may be described as a gradual utilization of business-like elements in the public sector administration. Procedures connected with implementation of managerial tools to the area of the public sector are usually referred as the new public management. Hood (1991) commented this process in connection with public finance reforms among the firsts. He summarizes that the new public management means an attempt to introduce performance indicators to the public sector, to decrease expenses of the public sector activities and to improve its financial control in fact.

Also Lynn (1998) for example emphasizes a strong accent on performance motivated administration and its implementation to the internal environment as one of the most important impacts of the new public management initiatives on the organizations of the public sector. The author states that both concepts of management, i.e. business and the public sector can be surprisingly similar in many aspects. In the course of 90s of the 20th century managerial methods and tools start to penetrate to the area of the public sector more intensively. Practically all developed countries and some developing too have launched a complex of the public finance reforms covering many areas of the public life. Very often these reforms encompass changes in tax systems, social a pension systems, health-care systems and others.

Changes in methodology of the public sector accounting represent an important part of the public sector reforms too. In fact it means a transfer from the cash basis under which accounting data were prepared so far to the accrual basis of accounting that is used by the businesses traditionally. As a consequence an information capability and transparency of accounting outputs increase significantly in the public sector. The public sector units have complete revenue and expenses data now and also information concerning the total assets and liabilities is more complete and relevant (Vodáková, 2012). The Czech Republic has prepared the public sector accounting data under the accrual basis in 2011 for period of 2010 for the first time (Hrůza and Valouch, 2014).

The first practical evidence concerning managerial tools implementation in the public sector emerges around the turn of the century and it seems to be relatively ambiguous. Monro (2003) for example points out a discrepancy between former high expectations and present multivalent reality. The author states that nevertheless considerable effort to set and utilize performance indicators their role is limited by such factors as an absence of

responsibility and others. Also Moynihan and Pandey (2005) who examine a relationship between management and performance observe that performance improvement is conditioned by various external and internal factors. Fundamental external factors include support of elected deputies and influence of the public or media. Organizational culture, emphasis on performance by way of clearly defined aims, and decentralization of authority can be considered as important internal factors according to authors.

Present period can be characterized by continuing implementation of managerial methods to the performance management of the public sector organizations. Also the role of performance audit increases significantly, when it is often institutionalized in the public sector organizations. Regardless these facts it seems that even increase of transparency and performance indicators utilization lead to provable performance improvement only rarely. This attitude is taken by a relatively numerous group of authors such as Sanger and Bryna (2013). Other authors (Poister, Pasha, Edwards, 2013) on the other hand proclaim that wider utilization of performance measurement techniques can really contribute to increase of organizational performance. Moreover it seems that the situation differs across various parts of the public sector.

According to former findings the Czech state administration organizations prepared no kind of performance data to evaluate their activities in past (OECD, 2008). The situation changed in 2013 when the Government of the Czech Republic has introduced three so called key analytical indicators for performance evaluation of the state administration. (Vodáková, 2014). Though this event could be regarded as a perceptible step forward, some aspects remain questionable. Mainly the purpose and utilisation of indicators was not clearly determined and also the construction of indicators in relation to performance evaluation was debatable.

1 Methodology and data

This paper deals with performance indicators in the area of the Czech state administration. Its content is divided into four parts. The first one (the Introduction) gives a brief review of a historic development of performance management in the public sector and performance indicators proposal. The second part (Chapter 1) describes the aim of the paper, used scientific methods, limiting conditions and main data sources. The third part (Chapter 2) summarizes main findings of the paper and comments some questionable points. Brief conclusions are formulated in the fourth part (Conclusion) finally.

The aim of the paper is to find out a real situation in performance indicators measurement of the Czech state administration organizations. The most important research questions are following:

- What is a recent development of key performance indicators, their construction and utilization in the area of the Czech state administration?
- What are the current trends of specific indicators in the Czech state administration units?

Description, analysis, comparison and synthesis were used as basic scientific methods in the paper. With respect to a considerable extent of the whole public sector the paper is limited to the state administration (particular ministries) only. There are several reasons for this decision. The first one lies in an importance of the state administration as a significant consumer and redistributor of budgetary sources. The second is connected with our preliminary findings that the state administration may be more resistant to performance measurement implementation than other parts of the public sector such as municipalities. The third reason consists in our former survey that could serve as a suitable base for mutual comparison.

As main data sources scientific papers relating to performance measurement were used for review of historical development. Further the Government of the Czech Republic and the Ministry of Finance materials and databases were used, analysed and discussed for the purposes of the Chapter 2.

2 Main findings and discussion

This chapter summarizes main findings of the paper. The first subchapter concentrates on key performance indicators construction and possibilities of their utilization. The second subchapter comments current trends of indicators in the specific ministries.

2.1 Construction and the purpose of key analytical indicators

For the purposes of performance evaluation of the state administration units the Government of the Czech Republic has introduced three key analytical indicators in 2013. In fact these indicators represent simple financial ratios coming out from accounting data. It is evident that their intention is to compare and control important kinds of expenses and assets. Thanks to the above mentioned transition to the accrual basis of accounting it can be said that inputs of key

analytical indicators are relevant and represent very good base of future analysis and evaluation.

The first indicator is created as a ratio of salaries and wages (expenses) to number of employees and it is calculated in Czech Crowns per one employee of the state administration unit. A construction of the indicator did not change from 2013. Salaries and wages represent one of the most important kinds of the public sector expenses so the sense of this indicator is evident. Also its mutual comparison among various state administration units may be very convenient nevertheless their diverse activities and orientation. It seems the indicator may be very suitably used in a standard setting process too.

The second indicator represents a simple ratio of controllable operational expenses to number of employees and it is also calculated in Czech Crowns per employee. Among controllable expenses are included operational expenses except for energy consumption, personal expenses (wages, salaries and insurance), taxes, maintenance and items connected with long-term assets use, provisions and some others. From 2013 the content of used controllable expenses was specified. In the case of this indicator an intention of the government probably is to monitor and control operational expenses except for wages and those connected with the long-term assets utilization. The problem is that each ministry may have other demand for operational items in relation to their specific orientation and activities. Therefore it seems that in the case of this indicator information capability of mutual comparison may be slightly limited. On the other hand time comparison, comparison with the median or a standard for example may be useful.

The third indicator is designed as a ratio of selected controllable operational expenses to book value of the long-term assets plus depreciation, i.e. long-term assets in acquisition costs. In 2013 the construction of the indicator has got through some changes which limit possible time comparison. As selected controllable expenses are used energy consumption, maintenance, self-acquisition of the long-term assets and shortages now which represent an important change from 2013 when also material cost, other services and operational expenses were applied. The indicator is computed as a percentage and probably it is the worst comparable of all three indicators commented because unique activities of specific ministries prove probably also a specific demand for long-term assets endowment. But still time comparison, comparison with the median or a standard may be beneficial.

According to accessible information there exist several purposes of key analytical indicators setting. The first one is a possibility of monitoring and control of the state

administration performance through expense ratios. The second reason is a possibility of standard setting and the third reason is utilization of the indicators within the budget process. As for monitoring these indicators may be used very well for given purpose because they are simple, come out from relevant database and enable time and mutual comparison. However they cannot evaluate performance of ministries, but their expenses at the most. Performance is understood as an output of activities therefore it can be monitored through efficiency indicators only. Expenses and their ratios can refer to inputs only. For that reason it would be desirable to supplement a system of existing indicators by those relating to outputs; even if they were only descriptive or qualitative.

In the case of standards setting indicators may be used successfully for the field of expenses. However it would be needed to collect longer time-series and exclude an influence of changes in indicators construction. Standards could be adjusted separately for specific ministries (except for wages per employee) or further modified inside of ministries. Creation of homogenous groups of units seems slightly debatable in the case of ministries thanks to unique character of their activities.

The third possible utilization of indicators lies in a budget creation process. The Ministry of Finance of the Czech Republic states that indicators were used for this purpose in 2015 firstly with no other closer comment. It seems that possible utilization of indicators in the process of budget creation may be complicated by diverse methodology used for preparation of accounting and budgeting data. While accounting data used for indicators calculation are prepared under the accrual basis, budget data are still prepared under the cash basis though some partial cross-walk list is created. The second problem is we still talk about expense indicators and the budget should be planned according to main aims and tasks of units (planned outputs) and not according to their past expenses.

2.2 Current trends of key analytical indicators in specific ministries

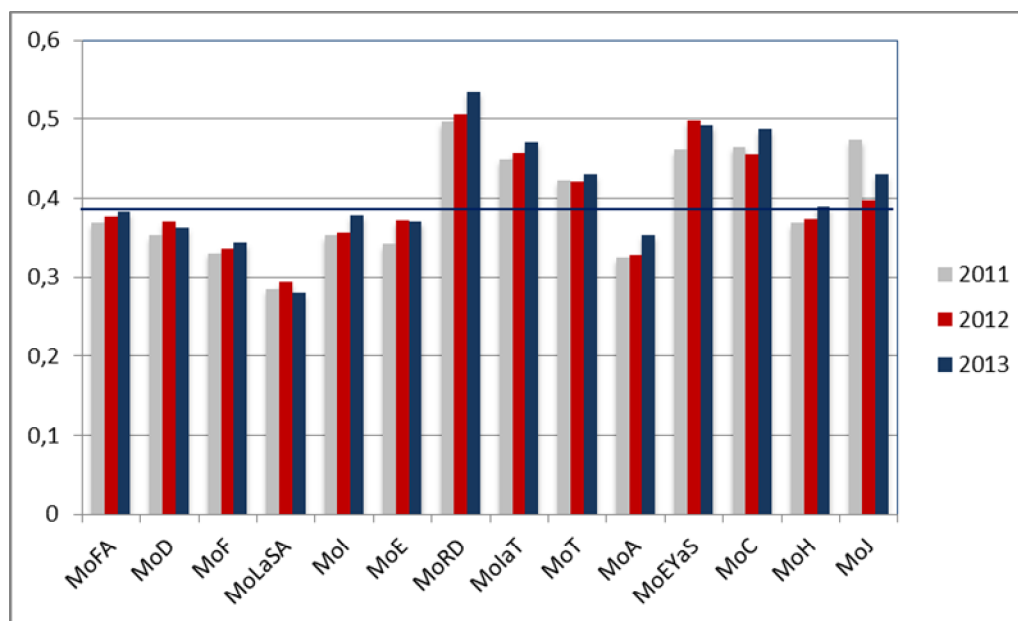
Figure 1 shows development of the first key analytical indicator (salaries and wages per employee) in specific ministries¹ within three year time period. The median of the indicator represents approx. 0.386 mil Czech Crowns per employee in 2013. The highest values of the

¹ Examined sample includes Ministry of Foreign Affairs (MoFA), Ministry of Defence (MoD), Ministry of Finance (MoF), Ministry of Labour and Social Affairs (MoLaSA), Ministry of the Interior (MoI), Ministry of the Environment (MoE), Ministry of Regional Development (MoRD), Ministry of Industry and Trade (MoIaT), Ministry of Transport (MoT), Ministry of Agriculture (MoA), Ministry of Education, Youth and Sports (MoEYaS), Ministry of Culture (MoC), Ministry of Health (MoH), and Ministry of Justice (MoJ).

indicator were recorded in the Ministry of Regional Development (0.535 mil Czech Crowns per employee), the Ministry of Education, Youth and Sports (0.492 mil per employee) and the Ministry of Culture (0.487 mil per employee). To the contrary the Ministry of Labour and Social Affairs (0.280 mil per employee), the Ministry of Finance (0.344 mil per employee) and the Ministry of Agriculture (0.354 mil per employee) can be found markedly under the median.

This indicator can be further modified by dividing salaries and wages expenses on payments to external and internal persons which may have surprisingly weighty impact on presented values. The highest values of ratio of external wages and salaries can be observed in the Ministry of Education, Youth and Sports, i.e. 14.6 % in 2013 and the Ministry of Culture (5.5 % in 2013). Further it can be stated that in vast majority of ministries values of the indicator show growing trend.

Fig. 1: Ratio of salaries and wages expenses per employee

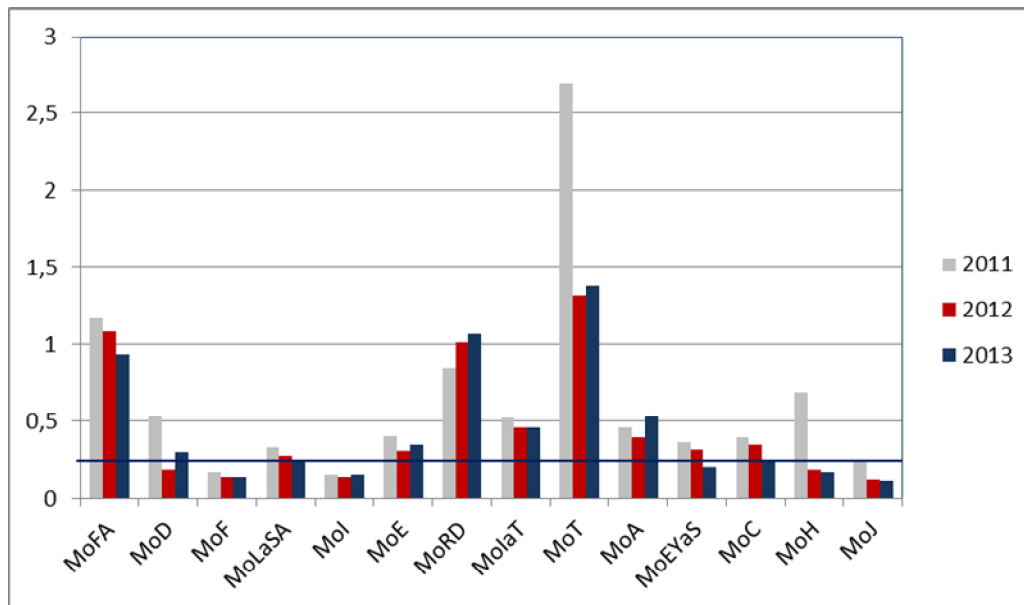


Source: MoF (2015), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

As figure 2 implies the median of the second key analytical indicator (controllable operational expenses per employee) represented 0.271 mil Czech Crowns per employee in 2013. The highest values of the indicators demonstrate the Ministry of Transportation (even 1.38 mil Czech Crowns per employee), the Ministry of Regional Development (1.07 mil per employee) and the Ministry of Foreign Affairs (0.936 mil per employee). Reversely values of

the Ministry of Justice (0.109 mil per employee), the Ministry of Finance (0.133 mil per employee) and the Ministry of the Interior (0.149 mil per employee) are recorded under the median. The time trend of the indicator seems to be rather stagnant or slightly decreasing.

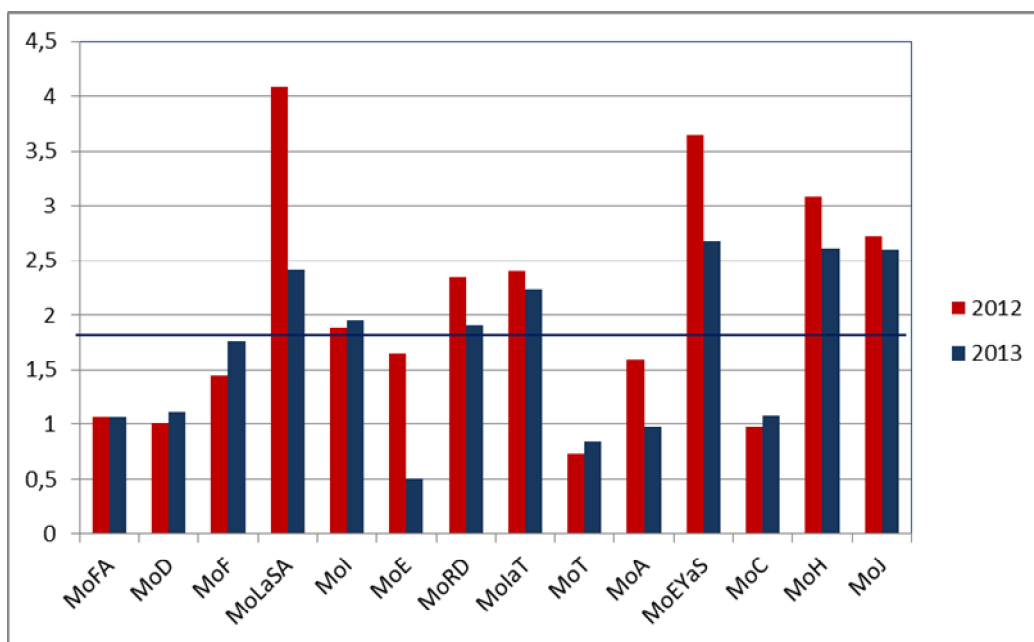
Fig. 2: Ratio of controllable operational expenses per employee



Source: MoF (2015), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

For the reason of methodical changes in the construction of the third indicator (selected controllable operational expenses to the long-term assets) values of this ratio for 2011 could not be included to the figure 3.

Fig. 3: Ratio of selected controllable operational expenses and the long-term assets



Source: MoF (2015), online: <http://www.mfcr.cz/cs/verejny-sektor/monitoring/financni-parametry-vykonnosti>

The median for 2013 is 1.84 %, values of the ratio differ significantly among ministries, and decreasing interannual trend rather prevails. The highest values were recorded in the case of the Ministry of Education, Youth and Sports (2.68 %), the Ministry of Health (2.61 %) and the Ministry of Justice (2.6 %). On the other hand the lowest values show the Ministry of Environment (0.5 %).

Conclusion

The paper deals with key analytical indicators of performance evaluation in the area of the Czech state administration units. These indicators were set in 2013 for the first time and they can serve various purposes provided that they will be implemented properly and supplemented by additional data and measures. Indicators can be used for mutual comparison, monitoring of specific state administration units, standardization process, or budget creation process.

On the other hand there exist also some debatable issues such as unique character of the state administration units, differing methodology of accounting and budgeting data, or an absence of performance indicators based on outcomes.

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